



U.S. Department of Energy
Office of Inspector General
Office of Audit and Inspections

Audit Report

The National Nuclear Security
Administration Global Threat
Reduction Initiative's Contract
Administration



Department of Energy
Washington, DC 20585

October 25, 2011

MEMORANDUM FOR THE DEPUTY ADMINISTRATOR FOR DEFENSE NUCLEAR
NONPROLIFERATION

A handwritten signature in blue ink, appearing to read "David Sedillo".

FROM: David Sedillo
Director
Western Audits Division

SUBJECT: INFORMATION: Audit Report on "The National Nuclear Security
Administration Global Threat Reduction Initiative's Contract
Administration"

BACKGROUND

The National Nuclear Security Administration's (NNSA) Office of Defense Nuclear Nonproliferation established the Global Threat Reduction Initiative (GTRI) in May 2004, as a vital part of the efforts to combat nuclear and radiological terrorism. GTRI's mission is to reduce and protect vulnerable nuclear and radiological material located at civilian sites worldwide. GTRI accomplishes this through three subprograms: Convert, Remove, and Protect. The Convert subprogram focuses on converting research reactors from using high enriched uranium to low enriched uranium. The goal of the Remove subprogram is to remove and dispose of excess nuclear and radiological materials. Finally, the Protect subprogram protects high priority nuclear and radiological materials from theft and sabotage.

GTRI supports the Department of Energy's (Department) Nuclear Security goal by preventing terrorists from acquiring nuclear and radiological materials that could be used in weapons of mass destruction or other acts of terrorism. GTRI has completed or has ongoing activities in 124 countries around the world to implement nuclear and radiological threat reduction in line with this goal.

Although much of the GTRI mission and scope is performed by the Department's national laboratories, NNSA also executes a portion of its GTRI mission directly through small business and foreign contracts. As of January 2011, the GTRI program had 20 active small business and foreign contracts totaling \$272 million. We performed this audit to determine whether NNSA was effectively managing its GTRI contracts, including small business and foreign contracts.

Our review of this matter is part of a multi-step effort on nonproliferation activities. This effort concentrated on a review of controls over contract management. Future installments may evaluate activities in various foreign countries.

CONCLUSIONS AND OBSERVATIONS

We found that, overall, NNSA established a system of controls to manage its GTRI contracts. In particular, GTRI personnel verified contract deliverables, employed multiple monitoring techniques, and reviewed contract costs. For example, GTRI representatives stated that they conducted site visits approximately every 6 weeks for one of the large foreign contracts we reviewed. According to GTRI officials, site visits afforded GTRI representatives an opportunity to view contractor performance and determine if any tasks required adjustments.

We also concluded that NNSA had a process in place to review contract costs for allowability, allocability, and reasonableness. We sampled invoices from the 12 contracts we reviewed and noted that GTRI technical representatives and contract office staff performed joint reviews upon receipt of contractor invoices for firm-fixed-price contracts. Contract files contained e-mails approving payment and confirming receipt of the goods and services. We also verified contract specialist reviews of cost-reimbursement and time-and-material contract invoices for any unallowable costs. We noted instances where costs were disallowed when they did not comply with the negotiated rates.

The remainder of our report discusses the controls that GTRI established over one particularly large foreign contract which accounted for \$131 million of the \$272 million of GTRI's foreign and small business contracts.

Kazakhstan Contract

GTRI established a system of controls to mitigate risk associated with an unknown scope and cost of work in a foreign country. In December 2003, the Department entered into a contract with the Kazakhstan Nuclear Enterprise Corporation (KATEP) to transfer spent fuel at the BN-350 reactor in Aktau, Kazakhstan into safe, secure long-term storage. The contract fulfilled an international agreement to prevent the proliferation of nuclear weapons. At the time, the Department did not know the scope and cost of the work.

Although the full cost and scope were unknown, NNSA mitigated the risk of incurring unallowable costs by requiring task assignments as the cost and scope were determined. The task assignments that were issued described the scope of work to be performed, milestones, period of performance, fixed prices, etc. When NNSA and KATEP agreed to the terms of the task assignment, they incorporated the task assignments into the KATEP contract. In fact, officials indicated, and we verified, that KATEP could not begin work prior to NNSA's issuance of the task assignments signed by the Contracting Officer. In addition, NNSA officials worked with subject matter experts from the Department's national laboratories to determine task requirements, such as the scope of work and the associated costs. Finally, we reviewed contract files and observed photographs, trip reports, and e-mails from onsite officials who verified that the work was completed as required in the task assignments.

NNSA officials stated that they implemented procedures that reduced the risk that NNSA would incur costs under the KATEP contract that were not fair or reasonable. According to NNSA officials, pricing professionals carefully scrutinized the proposed price of tasks issued to verify that each proposed price was fair and reasonable. We reviewed five Price Negotiation Memorandums (PNM) and noted that the pricing officials' analysis and determination stated that

prices were considered fair and reasonable. NNSA officials took additional steps to promote price reasonableness, including actively assisting KATEP in competitively bidding tasks to its subcontractors. For example, in two of the PNM's we reviewed, we noted that NNSA personnel participated in the bid review committee along with the contractors.

In addition, NNSA officials stated that they took steps to control schedule requirements when the KATEP contract was modified. Specifically, NNSA officials told us that project office personnel and the contractor tracked progress against schedules. The scheduled deliverables were also verified by the NNSA program office and contract administrators as a part of the invoice approval process. We also noted that NNSA only approved invoices upon receipt of approval in an email from the Technical Lead including documentation to support the cost of the deliverable as required.

Finally, NNSA officials stated that they took additional actions to provide stronger acquisition planning controls for future contract actions. For example, NNSA utilizes the Management Support Systems Branch/Pricing Section, which provides advice and tools, and uses databases of international cost data and historical foreign cost information to assist the GTRI program. These actions, if consistently utilized, should help NNSA achieve its GTRI goals.

According to a GTRI document, the work in Kazakhstan was completed in November 2010, and is a success story for the GTRI program. In the end, KATEP secured and protected enough nuclear materials to make about 775 nuclear weapons.

Since no recommendations are being made in this report, a formal response is not required. We appreciate the cooperation of your staff during the audit.

Attachment

cc: Deputy Secretary
Associate Deputy Secretary
Chief of Staff
Director, Business Services Division, NA-APM-11
Director, Office of Internal Controls, NA-MB-20

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of the audit was to determine whether the National Nuclear Security Administration's (NNSA) Global Threat Reduction Initiative (GTRI) program is effectively managing its contracts, including small business and foreign contracts.

SCOPE

We performed the audit between January 2011 and October 2011. We conducted our audit work at the NNSA offices located in Washington, DC, and Albuquerque, New Mexico. This audit did not include visits to foreign countries to view actual projects. Rather, it focused on contract management activities performed by U.S. based personnel.

METHODOLOGY

To accomplish the audit objective, we:

- reviewed Department of Energy (Department) guidance and requirements for contract administration;
- interviewed key personnel at NNSA Headquarters and the NNSA Albuquerque Complex;
- reviewed 12 of 48 foreign and small business GTRI contracts (both active and closed), the associated modifications, and supporting documentation; and,
- reviewed contract deliverable verification information obtained from key technical personnel.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We also assessed performance measures in accordance with the *Government Performance and Results Act of 1993* and found that the Department had established performance measures related to GTRI. We did rely on computer-processed data to satisfy our audit objective.

Management waived an exit conference.

CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the inspection would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?
5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name _____ Date _____

Telephone _____ Organization _____

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)
Department of Energy
Washington, DC 20585

ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Felicia Jones at (202) 253-2162.

This page intentionally left blank.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following address:

U.S. Department of Energy Office of Inspector General Home Page

<http://energy.gov/ig>

Your comments would be appreciated and can be provided on the Customer Response Form.